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SUBJECT: SINGAPORE SWF TEMASEK REVERSES LEADERSHIP TRANSITION

REF: SINGAPORE 131

¶1. (SBU) SUMMARY: Temasek Holdings, one of Singapore's two sovereign wealth funds, announced it had canceled plans for U.S. citizen Charles Goodyear to take over as CEO on October 1. Ho Ching, the current CEO and Executive Director (and PM Lee's wife) will remain in charge. The announcement abruptly ended a brief relationship that some analysts had hailed as a step toward greater transparency for the fund. Temasek announced the decision as a mutual agreement based on "strategic issues," but some local analysts are skeptical and suspect planned personnel changes and Goodyear's critiquing of Temasek's investments were to blame. Market observers criticized the move for its lack of transparency and called for greater disclosure of the reasons for it. Although the future of Temasek's leadership is in question, analysts do not expect this move to have a significant impact on its portfolio decisions. The company is expected to pursue growth opportunities by expanding its portfolio in China, India, and Brazil, and by rebalancing away from some financial sector investments and toward energy and natural resources. End Summary.

Ho Ching to Remain CEO, Goodyear to Depart Temasek

¶2. (SBU) Citing "strategic issues" with CEO-designate Charles "Chip" Goodyear, Singapore sovereign wealth fund Temasek Holdings announced July 21 that it will not proceed with his appointment. Instead, current CEO (and wife of Prime Minister Lee Hsien Loong) Ho Ching, will continue to lead the company. Ho Ching had announced in March that she would step down from her post on October 1, 2009 (reftel). Her resignation at the time was widely considered (despite Temasek denials) to be a result of the fund's poor performance in 2008 and the need to further internationalize the fund by bringing in foreign talent. She was to be replaced by Goodyear, a U.S. citizen who would have been the first non-Singaporean to head the fund. Temasek appointed Mr. Goodyear to the board on February 1 and named him as CEO-designate on March 1, concluding a four-year process to identify a successor to Ho Ching. Goodyear had most recently served as the CEO of Australian mining giant BHP Billiton from 2003-07.

An Unhappy Marriage?

¶3. (SBU) Notoriously tight-lipped Temasek announced without elaboration that "strategic differences" were to blame for the end of Goodyear's planned takeover as CEO. Local analysts confirmed to Embassy local press reports suggesting Goodyear left Temasek after his proposed changes to senior management did not go down well with the Board. Also, Goodyear's reputedly hard questioning of existing investment decisions and plans earned him some rancor among the Temasek investment team, few of whom are reportedly sad to see him depart. Another local economist suggested to Emboff a slightly more sinister reason: that Madam Ho had continued to micro-manage Temasek

despite her planned departure, interfering with Goodyear's transition to the top spot.

14. (SBU) Temasek's handling of Goodyear's departure generated renewed attention to the fund's lack of transparency. Local press reports have begun speculation on the nature of the alleged strategic differences, why they were not discovered earlier, and why they could not be resolved during the company's long vetting process. Foreign press editorials (including the Wall Street Journal's) were more critical in tone, emphasizing the right of Singaporeans to know the whole story behind Goodyear's resignation. Local analysts said they viewed the cancellation of the transition as much a step away from transparency as the original hiring had been a step toward more transparency and accountability. Temasek's expected search process for a new CEO will be given closer scrutiny as the decision-making ability of Temasek's board is called into question.

Where Goodyear May Have Taken Temasek

15. (SBU) Although details are sketchy about Goodyear's plans for Temasek, early indications were that Temasek would see a more aggressive investment posture under his leadership. In a recent report on Temasek's future, Nomura Bank predicted Goodyear would take a more aggressive mergers-and-acquisitions stance, with energy and natural resources as the most obvious sectors where he would immediately have contributed relevant expertise. The bank also expected Goodyear to keep a tighter rein on capital management at Temasek, increasingly using debt as a tool to finance investments. Nomura expected as well that China would be a key target for Temasek investments by expanding Temasek offices in Beijing and Shanghai for

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non-financial investments and/or investments in local private equity funds.

Key Growth Areas

16. (SBU) Regardless of Temasek's leadership, the sovereign wealth fund is expected to push into new areas, including the energy and natural resources sectors that Goodyear had expertise in. The fund's leadership is mindful that resources are typically seen as strategic assets for many countries and recognize that it will therefore need to tread carefully. Chairman S. Dhanabalan laid out a three-pronged strategy for Temasek aimed at steering clear of national obstacles when investing abroad: 1) avoid buying over fifty-percent or taking a controlling stake in companies with "iconic" value to a country; 2) invest with good local partners; and 3) opt for a minority stake in a company in a sensitive industry, or in an iconic firm. Despite Goodyear's departure, resources are an area of investment that will likely remain important to the rebalancing of Temasek's portfolio, especially as it attempts to expand its exposure in China and Brazil.

17. (SBU) China and India are likely to be key targets for new Temasek investments. The Straits Times recently reported that Temasek is in talks with a unit of the Bank of China to launch a US\$1-2 billion investment fund to focus on fast-growing infrastructure projects across China. Temasek officials have said they remain optimistic about China's long-term prospects but are taking a cautious stance. In South Asia (India and Pakistan), Temasek's portfolio exposure has grown from one percent in 2004 to seven percent in 2008. In India, Temasek is investing in companies that mirror growth of the domestic economy in sectors such as banking, telecom, and automotive, and in companies that capitalize on India's comparative advantage as a resource base for products and services. Temasek took a step toward increasing its geographical exposure in India by launching a new office in Chennai in February 2009.

Temasek-Linked Companies and Divestment Commitments

18. (SBU) Temasek has a long-term strategy of divesting from domestic holdings it does not consider of strategic importance to the Government of Singapore (GOS). It views this as necessary to allow these businesses to grow internationally, and it has adopted

various methods to realize its divestment strategy, including: 1) IPOs and private placements; 2) exchangeable notes of ownership; or 3) straight divestment via a trade sale. Temasek's strategic holdings are those considered critical to Singapore's long-term interests and security and will stay in the portfolio, including DBS Bank, Singapore Airlines (SIA), ST Engineering, and shipping company Neptune Orient Lines (NOL). Temasek is increasingly open to allowing its non-strategic holdings to grow beyond Singapore's domestic market into the region or globally. Temasek may dilute its interests in companies such as telco SingTel and cable company Starhub to allow these companies to expand in the region.

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